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## **The Macro- and Socioeconomic Impact of the Syrian Crisis on Lebanon**

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Liban

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# The Macro- and Socioeconomic Impact of the Syrian Crisis on Lebanon <sup>a</sup>

Raed H. Charafeddine, First Vice-Governor, Banque du Liban

## Abstract

Because the blazing Syrian territories are the longest and only accessible borders to Lebanon, the Syrian crisis has had a direct and significant impact on Lebanon's macro- and socioeconomic conditions. It has undermined vital economic sectors, weakened economic growth, and positioned Lebanon as the country with the highest per capita concentration of refugees in the world. The crisis has augmented fiscal deficits, intensified poverty and humanitarian crises, and aggravated existing developmental constraints. Current international and regional support initiatives still fall short of meeting Lebanon's urgent need to face current critical challenges and capitalize on any potential opportunities. Raed H. Charafeddine, the First Vice-Governor of Banque Du Liban, Lebanon's Central Bank, explores these dimensions and highlights the role of the Central Bank in mitigating the impact of the Syrian crisis on Lebanon through monetary and financial stability, sustained social development, and economic growth.

## About the Author

Mr. Charafeddine has been the First Vice-Governor at Lebanon's central bank since April 2009. Prior to that, he spent twenty years in the banking sector where he held senior Executive positions in Lebanon and in the UAE. He is the Alternate Governor for Lebanon at the International Monetary Fund as well at the Arab Monetary Fund's Board of Governors and the Alternate Chairman of the Capital Markets Authority in Lebanon. He has also been a visiting lecturer at world-renowned Universities. His speeches focus on topics related to Central Banking, governance, human and organizational development, civil society, interfaith dialogue and Arab Countries in Transitions, specifically on the monetary, economic, financial, social and cultural aspects. Mr. Charafeddine's papers and presentations are gathered on his website: <http://raedcharafeddine.net/>. He is a holder of Masters and Bachelor degrees in Business Administration from the University of North Carolina, Charlotte.

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([http://events.cornell.edu/event/raed\\_h\\_charafeddine\\_first\\_vice-governor\\_central\\_bank\\_of\\_lebanon](http://events.cornell.edu/event/raed_h_charafeddine_first_vice-governor_central_bank_of_lebanon))

## **I. Introduction**

According to the United Nations High Commission for Refugees (UNHCR), the number of forcibly displaced people worldwide has reached an unprecedented number of almost 66 million, with 22.5 million seeking safety across international borders as refugees. The Arab region is considered to be one of the largest sources of displacement worldwide. About 6.1 million Syrians are internally displaced in their country, and around 4.8 million are displaced in neighboring countries.<sup>1</sup> This makes Lebanon the brother-neighbor of the country that has been suffering one of the largest displacement crises in the past 40 years, and one of the most daunting humanitarian crises since the Second World War.<sup>2</sup>

Given the longstanding social and economic ties between Lebanon and Syria and the fact that the blazing Syrian territories are the longest and only accessible borders to Lebanon, the crisis has had a direct and significant impact on Lebanon's social conditions and economic growth. It has intensified poverty and humanitarian crises and further aggravated existing development constraints.

Since data shortcomings make it difficult to precisely assess the economic impact of the crisis, much of the analysis of the impact on Lebanon's economy relies on a detailed investigation of high-frequency indicators.<sup>3</sup> Thus, it is imperative to mention that identifying the economic implications of the Syrian conflict in a systematic and objective manner calls for accurate statistics that are currently unavailable from Lebanese public authorities and international bodies although serious efforts have been dedicated lately to setting a unified statistical context between Lebanese authorities and international bodies, as mentioned by the Lebanese Ministry for the Displaced.

In light of these constraints, I will try to present a holistic view of the macro- and socioeconomic challenges Lebanon faces in the wake of the Syrian crisis, and then shift into highlighting the local and international responses to the impact of the crisis on Lebanon's socioeconomic status, and finally shed some light on the other challenges and opportunities.

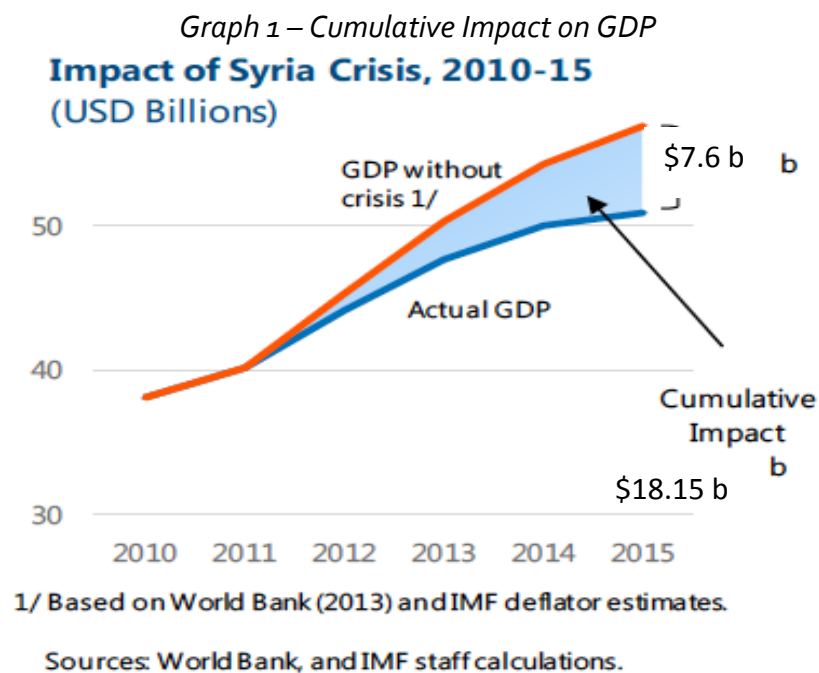
A caveat: in this talk, I am reflecting my own observations and analysis. It does not represent those of Lebanese official authorities.

## **II. Macroeconomic Scene**

### **A. Current Situation**

The Syrian crisis has significantly disrupted Lebanon's economy, stunting economic growth and development trajectories, disrupting traditional export markets, boosting unemployment, and diminishing investor confidence. Trade and tourism receipts were adversely affected while investment and consumption slowly and steadily declined. This impacted both consumer and business confidence and reduced Lebanon's GDP growth by

an annual average of 2.9 percentage points,<sup>4</sup> reducing GDP growth from 8–10% during the two years preceding the crisis to an average rate of 1–2% since its outburst. Other domestic factors that have also affected Lebanon’s growth over the past six years include extended political deadlock, global financial volatility, and a considerable terms-of-trade shock for some of Lebanon’s key oil-exporting trade partners.<sup>5</sup> The conflict has thus cost Lebanon more than US \$14.4 billion so far, equivalent to a cumulative loss of almost 30% of its GDP, reducing the GDP by US \$6 billion as opportunity cost.<sup>6</sup> (Graph 1)



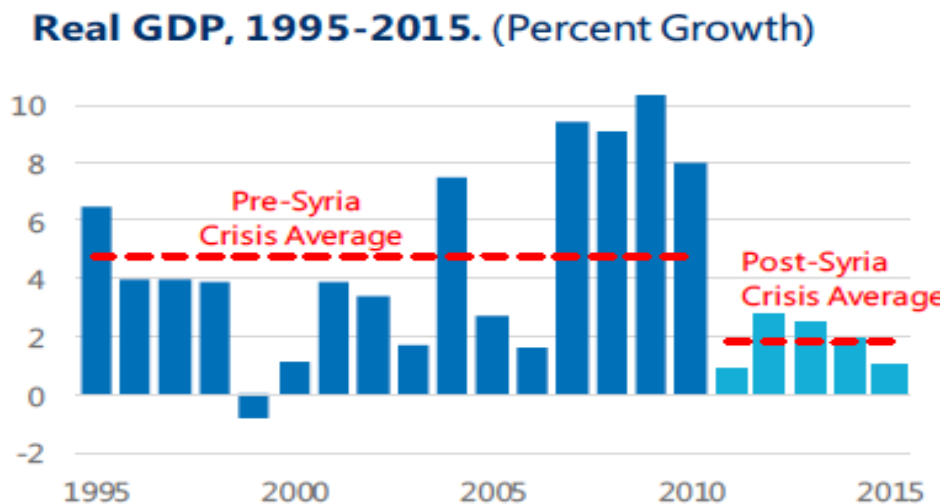
There is a distinction between the broader costs of the regional conflict versus the more specific cost of hosting the displaced Syrians. Separating the two empirically is a rather daunting task.

#### B. Before and After Crisis-Outbreak Comparative Analysis

Conducting a quick comparative analysis between the pre-crisis period of 2006-2011 and the period that followed the eruption of the Syrian crisis (2011-2016) clearly highlights the deeply engraved impact of the Syrian war on Lebanon’s macro-socioeconomic reality.

General Economic Scene: Average growth in the pre-crisis years of 1995-2011 reached around 4.7% and dropped to around 1.9% during the years of 2011-2015, preceding the outbreak of the crisis. (Graph 2)

Graph 2 – Impact on GDP Average

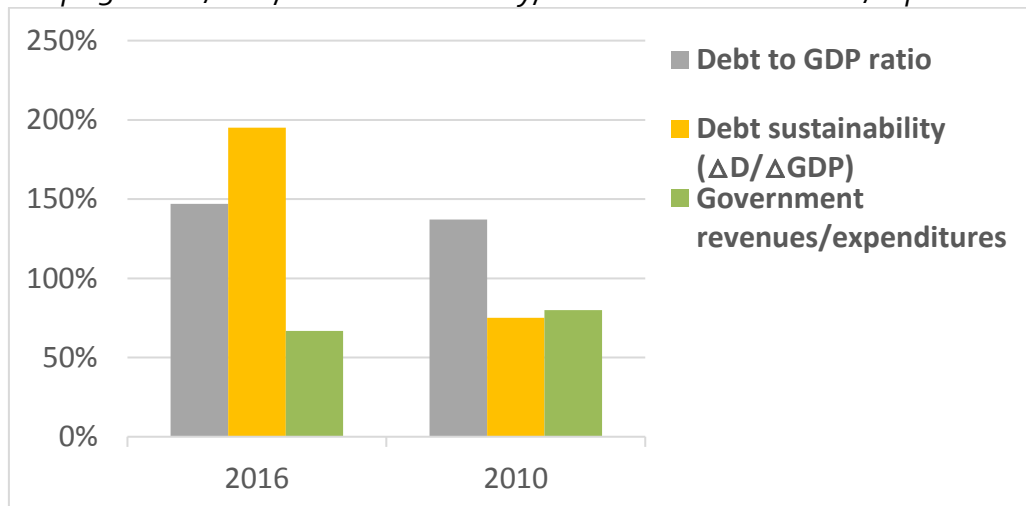


Source: National authorities and IMF staff calculations.

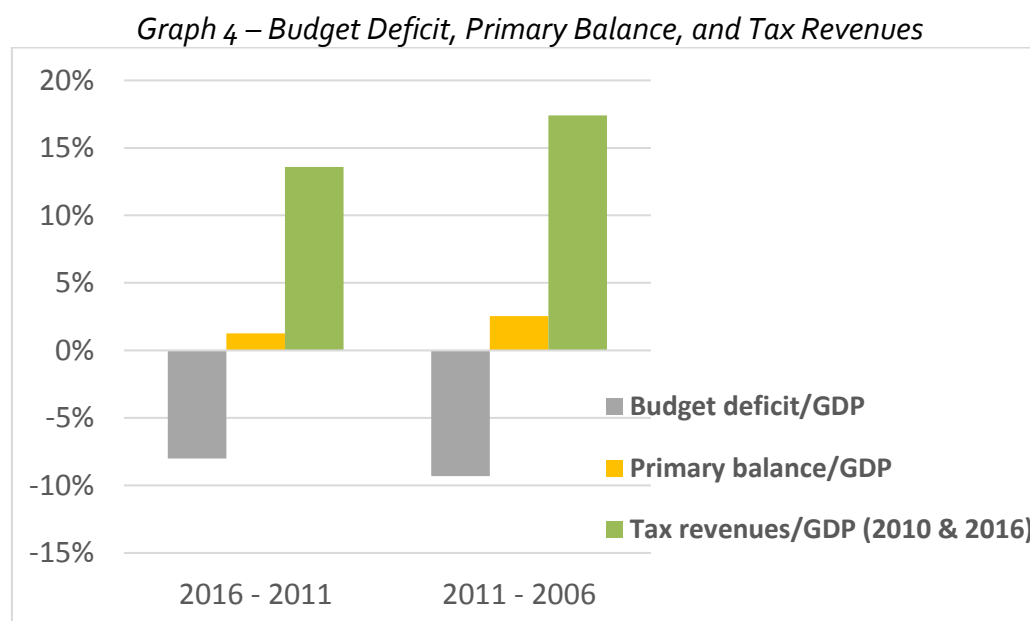
The flow of passengers in Beirut International Airport recorded a significant increase from an annual average of around two million passengers during the pre-crisis period of 2005-2010 to around 3.2 million passengers during 2012-2017, signifying the pressure exerted on Lebanon's transportation system after the crisis started.<sup>7</sup>

- *Public finance and fiscal policy:* The debt to GDP ratio amounted to 137% in 2010, while it recorded 147% in 2016. Debt sustainability weakened, as the change in debt relative to the change in GDP rose from 75% in 2010 to 195% in 2016. The ratio of government revenues to expenditures dropped from 80% in 2010 to 67% in 2016. (Graph 3)

Graph 3 – Debt/GDP, Debt Sustainability, & Government Revenues/Expenditures



In contrast, the budget deficit fell from -9.3% to -8% relative to GDP due to the decrease in government oil expenditures as a result of the drop in oil prices, and the primary balance<sup>b</sup> decreased from 2.6% to 1.3% of GDP. The ratio of tax revenues to GDP decreased from 17.4% to 13.6%. (Graph 4)

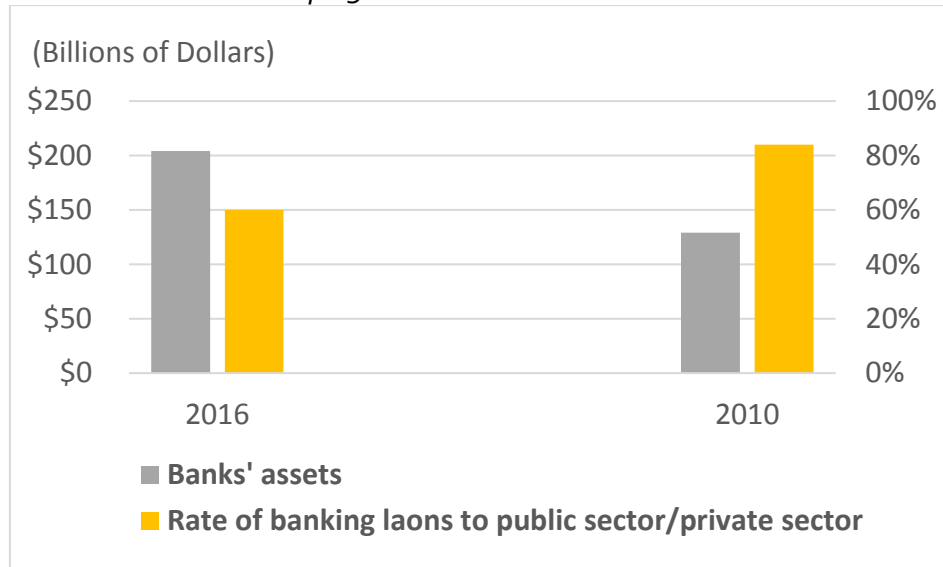


- *Monetary Policy and financial stability:* Total banks' assets maintained their upward trend, moving from US \$129 billion in 2010 to US \$209 billion in August 2017. The rate of bank loans to the public sector versus the private sector diminished considerably from 84% to 57%, largely as a result of the growth of credit to the private sector, thus indicating the vibrancy of financial inclusion in Lebanon. (Graph 5)

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<sup>b</sup> Primary balance is defined as government net borrowing or net lending, excluding interest payments on consolidated government liabilities.

*Graph 5 – Banks' Assets and Loans*



However, deposit growth decelerated from 13.5% in the first period to 7% in the second period. Similarly, banks' profit growth regressed from 19.8% to 2.4%, reflecting the relative shrinkage of cash flows and regional-global secular stagnation. (Graph 6)

*Graph 6 – Banks' Deposits and Profits*



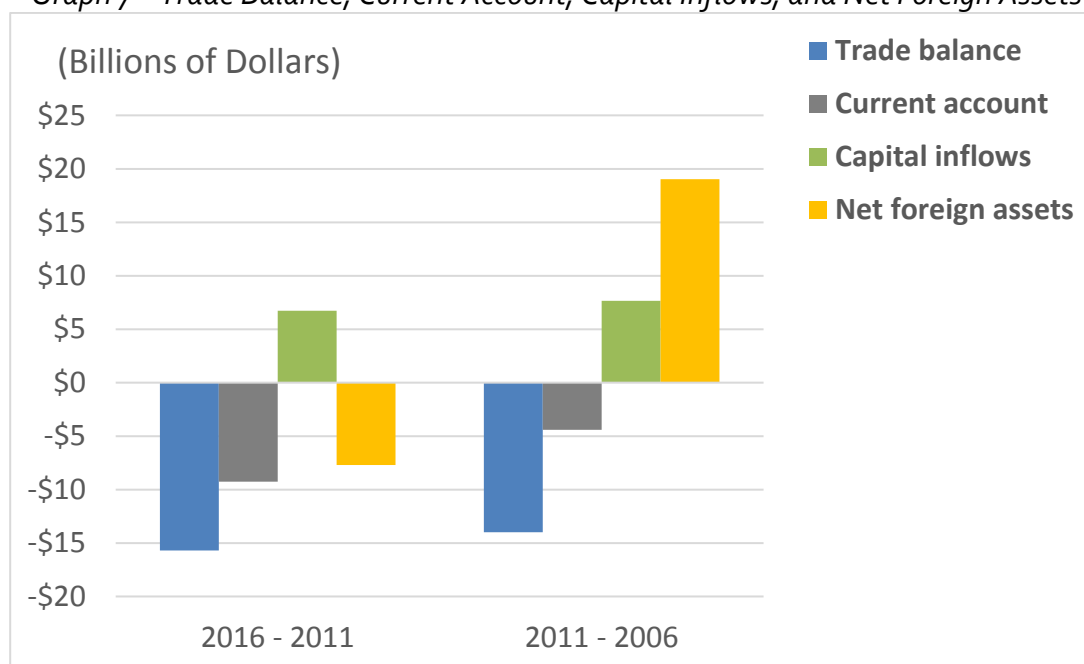
As for the currency in circulation, the annual average amount after the crisis outbreak during 2012-2017 was US \$2.87 billion, compared to US \$1.52 billion during the pre-crisis period of 2005-2010, indicating an increase in demand for local currency, which was largely due to the increase in population.<sup>8</sup>

- *Balance of Payments:* Indicators of balance of payments all deteriorated between the first and second periods, including the trade balance (US -\$14 billion to US -\$15.7 billion),



the current account deficit (US -\$4.4 billion to US -\$9.26 billion), capital inflows (US \$7.65 billion to US \$6.72 billion), and net foreign assets (US \$19.04 billion to US -\$7.71 billion) (Graph 7). On the other hand, the value of remittance inflows to Lebanon increased in average value from 2011-2016 after the crisis outbreak, compared to the pre-crisis period of 2006-2011, from US \$6.6 billion to US \$7.2 billion. However, the rate of remittance inflows to GDP decreased from an average of 21.5% in the pre-crisis period to 16.1% in the period following the crisis outbreak.<sup>9</sup>

*Graph 7 – Trade Balance, Current Account, Capital Inflows, and Net Foreign Assets*



### C. Public Finance

The fiscal impact of the crisis has led to a downturn in overall economic growth and an increase in specific displacement-related costs.

- The cumulative revenue losses in 2012-2015 is US \$4.2 billion (around 9% of 2016 GDP). Most of these losses are generated by a shortfall in tax revenues as a result of the slowdown in economic activity.<sup>10</sup> (Table 1)

Table 1 - Revenue Impact Assessment

	2012	2013	2014	2015	Cumulative 2012/15
Impact Assessment 1/ Impact on Public Finances					
	(in billions of LBP)				
Total Revenues and Grants	-730	-1,599	-944	-3,096	-6,370
Tax Revenues	-483	-1,131	-1,500	-2,311	-5,426
Non-Tax Revenues	-247	-468	-244	-785	-1,744
	(in millions of USD)				
Total Revenues and Grants	-485	-1,061	-626	-2,054	-4,226
Tax Revenues	-320	-750	-995	-1,533	-3,599
Non-tax and non-budget revenue	-164	-310	-162	-521	-1,157
	(in percent of GDP, unless otherwise indicated 2/)				
Total Revenues and Grants	-1.1	-2.4	-1.4	-4.4	-9.2
Tax Revenues	-0.7	-1.7	-2.2	-3.3	-7.9
Non-tax and non-budget revenue	-0.4	-0.7	-0.4	-1.1	-2.5

Source: World Bank staff estimates and projections.

1/ Compares, for each year, the difference between (1) the outturn, and (2) the counter-factual of no Syrian conflict.

2/ Nominal GDP used is the one containing the Syrian crisis impact (not the counter-factual GDP).

- The demand for public services rose sharply, generating an increase in public expenditure due to higher operating costs during 2011–2015 of around US \$2 billion (US \$400 million each year).<sup>11</sup>
- Revenue declined and expenditure increased, adding a burden of US \$2.6 billion to the annual deficit in Lebanon's public finance between 2012 and 2016.<sup>12</sup>
- The incremental fiscal deficits during 2012-2016 resulting from the crisis have caused an increase in Lebanon's public debt due to financing of the crisis-related incremental deficits and of the interest thereon (US\$750 million), between the end of 2011 and 2016, in the order of US\$6.0 billion.<sup>13</sup>

#### D. Monetary Policy and Financial Stability

The intensity of the regional turbulence, climaxing in the war in Syria, and decrease in oil prices, along with the persisting repercussions of the global financial crisis signified by the phenomenon of secular stagnation, inflicted severe contractionary effects in capital markets and deflationary outcomes on prices in Lebanon and the region. This reality, however, has not halted Banque Du Liban (BDL), Lebanon's central bank, from persevering in implementing a progressive monetary policy in its conventional and unconventional forms.

In this regard, the central bank has been committed to ensuring the basis for sustained social development and economic growth through achieving its conventional objectives of sustaining monetary stability through maintaining the exchange rate level and a high level of foreign reserves that recorded US \$43.5 billion in October 2017, excluding gold. BDL has also pursued interest rate stability without disrupting market mechanisms, securing effective sources of financing for the private and public sectors and enhancing financial inclusion.

Around 47% of adults in Lebanon have bank accounts, compared to 18% in the Arab World.<sup>14</sup> Moreover, BDL's efforts in managing excess liquidity<sup>c</sup>, which currently exceeds US \$20 billion,<sup>15</sup> aimed at curbing inflationary pressures, in addition to keeping inflation above zero-level, has reaped positive outcomes. As for maintaining financial stability, BDL has set the stage for developing the money and financial markets by establishing the Capital Markets Authority and enhancing equity financing. Launching a domestic payment system that provides a secure platform for money transfer operations and e-services has been also achieved. BDL's support of fiscal policy has been embodied in the effective management of public debt through its continuous commitment to allocate financial resources for financing the government's deficit at optimal costs.

The difficult economic conditions have compelled BDL to adopt unconventional monetary policy and financial engineering tools that encompass monetary transmission mechanisms which benefit the economy and society. These tools serve to stimulate internal demand and support the government in creating the necessary conditions for sustainable growth through boosting lending activity and fueling economic growth to revitalize the labor market, thus reinforcing social and environmental security and promoting human development. These packages, extending from 2013 through 2017 and amounting to an average of US \$1 billion per year, have proven to be successful by contributing around 50% of real GDP growth. These include incentives to support housing, education, renewable energy projects, innovative projects, research and development ventures, entrepreneurship, and other productive sectors of the economy. More recently, BDL placed additional focus on targeting the knowledge industry, which is considered a strategic comparative advantage for the Lebanese economy, creating room for new employment opportunities by encouraging Lebanese banks to invest in the equity capital of companies working in the knowledge economy, therefore expanding the country's GDP and ensuring sustainable development. This innovative scheme made available around \$600 million to support creativity and innovation.<sup>16</sup>

In 2016, BDL implemented a multipurpose and multidimensional financial engineering scheme aimed at strengthening BDL's foreign-currency assets, consolidating the capital base of banks, increasing liquidity in local currency, improving the government debt profile, enforcing the confidence in Lebanese treasury bills, increasing the inflation rate to a 2% target, improving Lebanon's credit rating, and improving the balance of payments (BOP) by adopting the means needed to boost internal demand and productivity, thus bolstering growth and development. BDL's Financial Engineering has led to inflows amounting to USD

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<sup>c</sup> Excess liquidity is defined as the net deposits at the commercial banks after deducting the loans, plus current account holdings in excess of those contributing to the minimum reserve requirements.

4.2 billion at end-2016, thus turning the BOP cumulative deficit of USD 1.7 billion in May 2016 into a cumulative surplus of USD 1.3 billion at the end of 2016.<sup>17</sup>

In addition, BDL has been keen to sustain its regulatory role in maintaining the strength and stability of the banking and financial sectors, being one of the major national strategic sectors. In this context, banks were required to: maintain high levels of liquidity; exceed international standards on capitalization requirements (Basel III); comply with investment and balance-sheet regulations (IFRS 9); and avoid excessive leveraging along with building adequate provisions. BDL's regulatory initiatives also covered the implementation of corporate governance practices, strengthening the anti-money laundering and countering financing of terrorism process, enhancing risk management and effective internal control, and compliance with global sanctions.

Hence, the unconventional monetary stimulus packages and prudential regulatory role remain the pillars on which BDL and the banking sector rely to successfully face the current challenges and avoid their risks, as is evident in this next section.

### **III. Socioeconomic Scene**

#### **A. Status of Displaced Syrians in Lebanon**

The global refugee regime comprises a set of norms that are based on international cooperation and reciprocity rooted in the 1951 Convention Relating to the Status of Refugees. Particularly, it centers around two sets of obligations: asylum, which determines states' obligations toward refugees and displaced people who reach their territory, and burden sharing, which covers their obligations toward refugees and displaced people in the territory of other states, including financial support or resettlement in their own territory. The first set of obligations is relatively well-developed, and implies a general expectation that countries will keep their borders open to those in need of protection. However, the second set of obligations is less developed, and is largely discretionary. Consequently, this places countries such as Lebanon in a difficult situation: facing the substantial costs of hosting displaced Syrians, but without being able to receive the adequate global support needed to manage this burden successfully.<sup>18</sup>

In its latest report published on June 30, 2017 the UNHCR revealed that 1,001,051 displaced Syrians are currently registered with the agency in Lebanon, indicating a decrease from the peak number recorded on April 10, 2015 (1,185,241).<sup>19</sup> Statements by Lebanese officials estimate the number of displaced Syrians in Lebanon at 1.5 million, driven up, in comparison to UNHCR figures, by the number of unregistered displaced Syrians. It is estimated that around 60% of displaced Syrians over 15 years old are without legal residency.<sup>20</sup>

Demographically, according to the UNHCR, 47.5% of displaced Syrians in Lebanon are males whereas 52.5% are females. 80.5% of them are women and children below age 18. As for the distribution of displaced Syrians across the regions of Lebanon, the UNHCR estimated that 357,000 resided in East Lebanon, 271,000 in Beirut & Mount Lebanon, 253,000 in North Lebanon, and 120,000 in South Lebanon.<sup>21</sup> (Table 2)

*Table 2 - Distribution of Displaced Syrians across Lebanon up to June 30, 2017*

Lebanese Governorate	Number of Registered Displaced Persons	Distribution Percentage
East Lebanon	357,000	36%
Beirut & Mount Lebanon	271,000	27%
North Lebanon	253,000	25%
South Lebanon	120,000	12%
<b>Lebanon</b>	<b>1,001,000</b>	<b>100%</b>

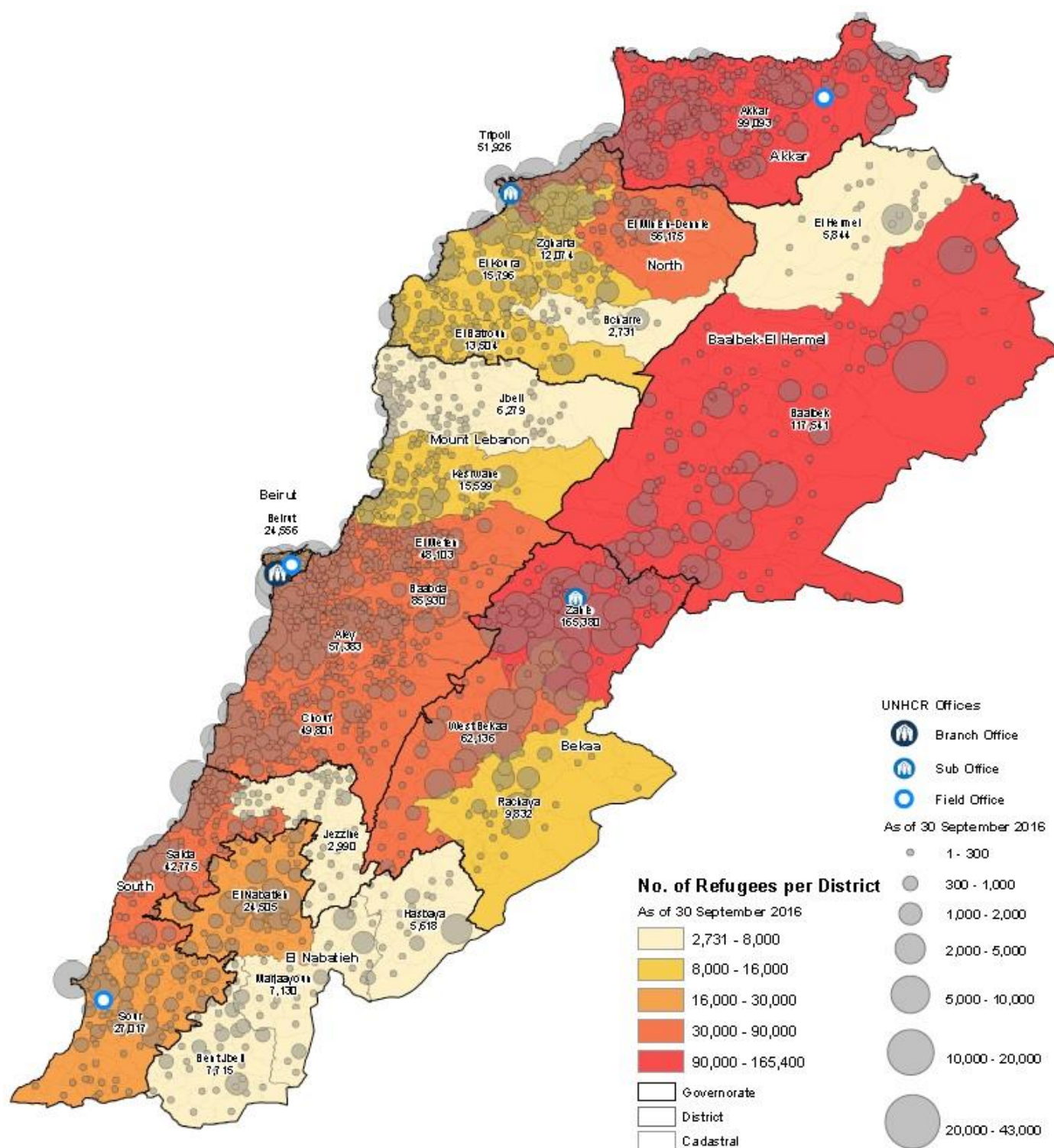
Source: UNHCR, <http://data.unhcr.org/syrianrefugees/country.php?id=122>

Socioeconomically, statistics indicate that 91% of displaced Syrians are in debt, averaging \$857 in cumulative debt. Moreover, 41% of displaced Syrians in Lebanon live in inadequate shelter, with 12% ranked as being in dangerous condition. As for food security, 94.5% of displaced Syrians and 35.6% of displaced Palestinians from Syria are moderately or severely food-insecure. Academically, over 250,000 displaced Syrian children between three and 17 years old remain out of school.<sup>22</sup>

Lebanese and international officials concerned with the response to the Syrian crisis agree that the number of displaced Syrians now makes up a third of the Lebanese population, incurring a huge burden and threatening the critical demographic balance in such a small country. "This is equivalent to 80 million Mexicans arriving in the United States over a span of 18 months."<sup>23</sup> The majority of the displaced live in 225 of the poorest localities in Lebanon, which has exacerbated the suffering of the Lebanese people.<sup>24</sup>

Compared to the vast capacities of the EU and the limited means of Lebanon, "Europe with a population of 512 million—128 times greater than the Lebanese population—and an area of 4.4 million square kilometers—i.e. 440 times larger than the area of Lebanon—had a massive debate about hosting 120,000 refugees—that is 12 to 15 times fewer than the number of the displaced people in Lebanon."<sup>25</sup>

## Regional Distribution of Displaced Syrians in Lebanon



Source: UNHCR Lebanon – Beirut Country Office

## B. Human and Social Development

In this context, the 2012-2014 World Bank study on the impact of the Syrian conflict on the Lebanese economy remains, in its figures and estimates, a major benchmark for researchers and officials.

### 1) Poverty

- The conflict in Syria, accompanied by the massive waves of displaced persons, has resulted in deepening poverty in Lebanon, pushing 200,000 more Lebanese nationals into the maws of poverty, with the descent of the current one million poor into further destitution.<sup>26</sup>
- Restoring social services to their pre-crisis level, while maintaining quality and accessibility, up to late 2014, required the investment of US \$177 million.<sup>27</sup>

### 2) Labor Market

- Intense competition for jobs by new entrants raised unemployment and informal business activities by 10 percentage points, doubling the overall unemployment rate to about 20%, with 250,000 - 300,000 Lebanese nationals joining the ranks of the unemployed. 50,000 Lebanese are estimated to enter the job market between 2014 and 2019.<sup>28</sup> According to UNICEF, unemployment among Lebanese youth stands at 30% and is attributed partially to displacement by Syrian workers who accept lower wages.<sup>29</sup>
- Estimates suggest that the Syrian labor force in Lebanon amounts to 384,000 people, of which around 36% are estimated to be totally unemployed. Nearly half of the displaced Syrian youth (19-24 years) are employed, constituting a very high ratio of employment for the displaced compared to other countries.<sup>30</sup> However, the unemployed second-half is a source of potential security risks since it raises the possibility of radicalization of these youth.<sup>31</sup> Addressing the sudden spike in the number of job-seekers requires resources ranging between US \$166 million and US \$242 million.<sup>32</sup>
- In order to reduce the unemployment rate among Lebanese to the pre-crisis level (about 10%) and increase employment for displaced Syrians, it is estimated that the creation of new employment opportunities for 450,000-500,000 people is required over the next five years.<sup>33</sup>
- New migrants will tend to lower the wages of incumbents in the short run, reflecting a lower economy-wide capital-labor ratio. The influx will also reduce the number of employed incumbents, as some will be induced to exit the labor market. But according to the IMF, not all residents are worse off, as discussed in the coming "income generating aspects" section.<sup>34</sup>
- The regularization of Syrian access to the labor market has long been controversial since proposals to give displaced populations the right to work or become more self-reliant

have sometimes been seen as opening the door to an indefinite stay. According to UNICEF and a UNDP survey, 90% of Lebanese youth perceived the Syrian displaced population present in Lebanon as imposing an economic or symbolic threat.<sup>35</sup> Nonetheless, to ensure broadest expansionary benefits, the Lebanese authorities committed to streamlining regulations concerning labor-market access for displaced Syrians in certain sectors where they are not in direct competition with the Lebanese. As current regulations restrict the ability of the displaced population to legally enter the labor market, many Syrians enter the labor market informally, causing a dramatic increase in the number of displaced Syrians without a valid residency permit, from 9% in January 2015 to 61% by July 2015. The authorities are exploring measures that might ease the humanitarian burden of current regulations, striking a delicate balance between meeting the livelihood requirements of the displaced population while simultaneously addressing the increasingly critical needs of Lebanon's host communities.<sup>36</sup>

- According to estimates, the Lebanese Crisis Response Plan (LCRP) has had an indirect impact on the labor market, whereby approximately 10,000 full-time jobs were created, with a similar number of part-time jobs supported.<sup>37</sup>

### 3) Health

- The urgent health needs of displaced persons drove up the cost of the Lebanese health system, decreased the supply of medication, and made healthcare more inaccessible to Lebanese nationals (displaced Syrians accounted for 40% of total primary healthcare visits), which may also result in an overall rise in diseases.<sup>38</sup>
- The impact of the healthcare system on public finance was estimated to be between US \$48 million to US \$69 million in 2014<sup>39</sup> and the financial deficit accumulated by public hospitals since the onset of the Syrian crisis mounted to US \$15 million, affected by the influx of displaced persons. Restoring health services to pre-crisis levels will require US \$308 million in 2017.<sup>40</sup>

### 4) Food Security<sup>41</sup>

During the past five years, food security in Lebanon has been severely impacted by the Syrian crisis. Vulnerable populations including displaced Syrians, Lebanese, and displaced Palestinians from Syria have seen their levels of food security significantly deteriorate. In this context, it is estimated that US \$507.2 million is needed to restore food security standards.

### 5) Education

With support from the international community and significant measures by the government of Lebanon, the enrollment of non-Lebanese children in public education increased almost fivefold from 27,000 in the 2011/2012 academic year to 150,000 in the 2015/2016 academic year, where approximately 42% of eligible Syrian children were enrolled in formal public



education programs.<sup>42</sup> In the 2016/2017 school year, around 195,000 Syrian displaced children (close to 52%) were being supported through the payment of school fees and thus granted free access into Lebanese public schools, in addition to supporting more than 200,000 Lebanese children.<sup>43</sup> As a result, the Lebanese public education system requires around US \$373 million in 2017,<sup>44</sup> of which US \$275 million has been provided by donors. The second phase of the RACE strategy for the period 2017-2021 (RACE II) aims at ensuring that all children aged 3 to 18 will have access to quality education, an ambitious target going well beyond the London Conference goal.<sup>45</sup>

### C. Infrastructure

There is added strain on Lebanon's already-stretched public infrastructure, resulting in a decline in service quality for existing Lebanese users. The World Bank Environmental and Social Impact Assessment (ESIA) study estimated that it would cost an additional US \$2.5 billion (5% of GDP) to bring service quality back to pre-crisis levels.<sup>46</sup> Moreover, estimates indicate that around US \$10 billion will be required over the 2018-2025 period for new investment projects in infrastructure to meet these service quality gaps by 2025.<sup>47</sup>

#### 1) Water and Sanitation

Between 2012-2014 the water and sanitation network in Lebanon experienced a sudden and massive 7% rise in overall demand, accompanied by a rise in the cost to public finance, by approximately US \$18 million.<sup>48</sup> With the percentage of population in Lebanon using safely managed water restricted to only 36%, sustaining water service delivery and quality will require US \$280 million in 2017.<sup>49</sup>

#### 2) Solid Waste<sup>50</sup>

The sudden increase in the population more than doubled the generated solid waste, leading to the pollution of water resources and the spread of diseases, which required the investment of US \$139 million – US \$206 million for waste management in 2012-2014.

#### 3) Electricity

The sudden and considerable rise in demand on the electricity grid drove up costs by US \$313 million in 2016, causing overall losses in Lebanon's energy sector of US \$333 million per year, or an estimated US \$1.33 billion until 2020, and leading to an estimated deficit of US \$222 million a year.<sup>51</sup> According to the UN, the overall economic cost of power outages and expensive polluting private generators, resulting from supplying the displaced with electricity, is estimated in the order of US \$100 million annually.<sup>52</sup> The investments in the energy sector that are needed in order to boost electricity generation capacity and improve the electricity network are estimated at US \$99.2 million in 2017 and US \$127 million in 2018.<sup>53</sup>

#### 4) Transportation<sup>54</sup>

Truck transit to Lebanon through Syria saw a decline in business by 65% due to the shrinking economic activity. Traffic, however, increased by 15 - 50% across Lebanon due to the new arrivals, with US \$246 million – US \$525 million needed in 2012-2014 to cover the costs of additional maintenance of roads and expansion of public transportation, in addition to providing compensation to truck operators.

While the World Bank focused on the perils of the conflict and the rising costs to the economy, it did not account for the positive economic aspects of the Syrian displacement crisis on the Lebanese economy. These positive impacts are reflected in some income generating aspects.

#### D. Income Generating Aspects

According to the IMF, theoretically, the inflow of migrants causes returns to capital (or other complementary factors, such as high-skilled labor) to actually increase, as the extra labor makes capital more productive. Hence, over the long run, as investment responds to higher returns and the capital stock expands, the capital-labor ratio will ultimately revert to the initial steady state, leaving wages at their original level. This premise, however, is challenged by the reality of the Lebanese economy, as discussed further in the “challenges” section ahead. In this context, the main income-generating aspects are:

##### 1) Reducing Labor Wages and Cost of Production<sup>55</sup>

Syrians are active in several productive sectors, with over 60% working in low-skill occupations, such as agriculture, construction, and services.

Although there are no statistics on the employment of Syrian labor in Lebanon, an official statement indicated that over 500,000 Syrian laborers were working in the construction and agriculture sectors in Lebanon prior to the Syrian conflict. In fact, the impact of these workers on work opportunities for Lebanese nationals and unemployment in Lebanon is rather limited since unemployment in Lebanon is not concentrated in such sectors, but it is high among young people, especially university graduates, who emigrate abroad in droves. The International Labor Organization (ILO) estimates that Syrian labor reached 160,000 workers and 80,000 job-seekers in mid-2014. As a consequence of the Syrian conflict, most Syrians are working without legal permits from the Lebanese Ministry of Labor which restricted their employment, based on a decree issued in June 2014, to the construction, agriculture, and sanitation services sectors. Syrian labor has benefited Lebanese employers and businesses who were able to pay cheap wages and save on benefits and compensations, thus driving down the costs of production for Lebanese business establishments.

##### 2) Spending on Housing Rent<sup>56</sup>

According to the UNHCR, most of the registered displaced people pay rent averaging US \$200 per month, which cumulatively results in a monthly injection of US \$33 million to Lebanese property owners.<sup>57</sup>

### 3) Consumer Spending

Despite their extremely limited incomes, many of the displaced Syrians have, nonetheless, been able to contribute to consumer demand in Lebanon by drawing on their own savings, borrowing from their extended social networks, or by channeling international assistance.<sup>58</sup> In addition, many wealthy and middle-class Syrian families may be considered permanent tourists as a result of their long stay in Lebanon. They spend money on maintaining their lifestyle, children's education, apartments, communication fees, etc...<sup>59</sup>

### 4) Influx of Funds from Donor Countries

Funding was received from donor countries to Lebanon through the UNHCR which is working with several international and local NGOs to deliver humanitarian assistance—whether in-kind or cash—including consumer products, food, medical supplies, hospitalization, monthly salaries, spending on infrastructure, support to the Lebanese host community, education of displaced children, and creating new jobs.<sup>60</sup> Despite the data limitations related to this particular issue, a UNDP-UNHCR study (2015) suggests that the impact of humanitarian aid on Lebanese economy has a multiplier value of 1.6 for every US \$1 spent. Without this assistance, growth in Lebanon could have been significantly lower.<sup>61</sup>

### 5) Starting New Businesses<sup>62</sup>

Many displaced Syrians started small- and medium-sized enterprises (SMEs). The Lebanese state did not adopt a policy for attracting large-scale Syrian investments and industries unlike Jordan and Turkey who have witnessed the opening of hundreds of Syrian factories on their territory.

It should be noted though that the advantages combined can never come close to the disadvantages suffered by Lebanon - a country already weighed down by political, security, economic and social distress - particularly the economic, social, infrastructural, and demographic implications of the spillover which constitute serious challenges that should be addressed, in a responsible and coordinated manner, to lift their burden from the shoulders of both Lebanese and Syrians.

## **IV. Local and International Responses as to Macro-Socioeconomic Impact**

### **A. Lebanon's Official Response**

In the early stages of the Syrian crisis, Lebanon maintained an open door policy toward the displaced population. However, the authorities took steps to limit new arrivals starting in

June 2014 after facing mounting displacement inflows. Thus, the authorities announced that only Syrians from bordering warzones would be allowed to enter the country.<sup>63</sup>

Subsequently, in October 2014 the government approved a Policy Paper on Syrian Displacement where it set a new approach for 2015. The essence of the Paper was that: (i) Lebanon had borne more than its share in accepting so many displaced people; and (ii) steps would be taken to diminish the number of displaced people, by restricting entry and encouraging the displaced to return to Syria.<sup>64</sup>

Implementing this policy, the Lebanese authorities announced, in December 2014, a new set of entry requirements that are compliant with a few approved categories and are still in place today. These categories are limited to “humanitarian exemptions criteria,” which apply to unaccompanied children, disabled persons with relatives in Lebanon, those with urgent medical needs, or persons who will be resettled in a third country.<sup>65</sup>

Moreover, in May 2015, the authorities instructed UNHCR to stop any further registration and to deregister displaced people who had entered the country since January 2015. Consequently, new displaced people not already registered with UNHCR are now ineligible to receive food or assistance through UN mechanisms.<sup>66</sup> The “pledge not to work” enforced by the Lebanese government was lifted in 2016 and replaced by a pledge to abide by Lebanese law. In March 2017, the Lebanese government announced the waiving of residency renewal fees for Syrian refugees registered with UNHCR prior to 2015.<sup>67</sup>

The new restrictions seem to have succeeded in stabilizing the officially registered numbers of the displaced population at around one million. Nevertheless, this number still represents an unparalleled burden for a country with Lebanon’s limited size and resources.<sup>68</sup>

The most recent official Lebanese response pertaining to the displaced Syrians was presented by President Michel Aoun at the UN General Assembly during September 2017 and expressed a balanced message towards this issue, stating that any return of the displaced people to Syria should be voluntary and safe. However, President Aoun added that the displaced people in Lebanon are currently living in precarious conditions, and that “there is no doubt that it would be better for the UN to assist them to return to their homelands rather than help them to remain in camps, lacking the basic standards of a decent living,” noting that the burden of the displacement crisis on Lebanon, in combination with an economic crisis, is becoming unbearable.<sup>69</sup>

In line with the multi-faceted impact of the presence of the displaced population, the Lebanese authorities outlined a comprehensive proposal at the London Conference, held in February 2016. This proposal comprises an ambitious, wide-ranging, medium-term plan covering the country’s extended displacement-related needs over 2016–20. The plan requires over US \$11 billion in support from donor countries, ranging from grants dedicated to support displacement needs, to loans for development projects. These include:<sup>70</sup> (Table 3)

- US \$2.5 billion for the 2016 Lebanese Crisis Response Plan (LCRP);<sup>d</sup>
- Almost US \$1.5 billion for the education sector through the Reach All Children with Education (RACE II) program;<sup>e</sup>
- Around US \$0.75 billion allocated to municipalities;<sup>f</sup>
- Over US \$0.25 billion for an employment program to stimulate the economy through the Subsidized Temporary Employment Program (STEP);<sup>g</sup>
- US \$2 billion in direct budget support, to be used to subsidize future Eurobond issues;<sup>h</sup>
- Around US \$4.25 billion in concessional financing for over 130 priority infrastructure investments.<sup>i</sup>

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<sup>d</sup> LCRP is a joint effort by the Lebanese authorities and the international community aimed at addressing the needs of both displaced Syrians in Lebanon, as well as vulnerable members of Lebanese host communities. It has three strategic priorities: (i) ensuring adequate humanitarian assistance; (ii) strengthening the capacity of national and local delivery systems; and (iii) reinforcing economic and social stability. It covers 2015–16, and serves as a transitional phase into a longer-term strategic framework for 2017–20.

<sup>e</sup> The Reach All Children with Education (RACE II) program aims to build on the authorities' past success in integrating Syrian children in formal schools. The second phase of the program aims at scaling up access to education to cover all children aged 3–18, both Syrian and Lebanese; and includes the construction and rehabilitation of additional capacity, and strengthening the management of Lebanon's education system. The program is expected to cost US \$350 million per year over four years.

<sup>f</sup> Municipal support aims at boosting the administrative, governance and financial resources of local municipalities to help them cope with displacement-related pressures on public services. The program encompasses direct financial support to municipal centers to encourage local economic development, create jobs and improve service delivery. In addition, the program includes the financing of projects for waste management, renewable energy and transport. The expected cost is US \$200 million per year over four years.

<sup>g</sup> STEP aims at creating new jobs in small and medium-sized enterprises through financial and non-financial incentives. The program is expected to create around 100,000 jobs and cost US \$280 million over three years.

<sup>h</sup> Amounting to US \$400 million per year over five years, this assistance is to take the form of a subsidy on Lebanon's future Eurobond issues, and is based on an estimate of the direct costs of displaced Syrians to the budget—including additional spending needs in the military, health, power, education, environment, water management, and social-support sectors.

<sup>i</sup> With the largest identified needs in electricity generation and transmission, roads and transport, environment, and water management, estimated investment requirements total US \$860 million per year over five years.

*Table 3*  
**Lebanese Authorities: Requested Funding, 2016-20**  
(USD million)

	2016	2017	2018	2019	2020	Total
<b>Sectoral Grants</b>	2,480	610	650	670	550	4,960
LCRP	2,480	-	-	-	-	2,480
STEP	-	60	100	120	-	280
RACE	-	350	350	350	350	1,400
Municipalities	-	200	200	200	200	800
<b>Budget Support</b>						
Interest Subsidy	400	400	400	400	400	2,000
<b>Concessional Financing</b>						
Infrastructure Projects	860	860	860	860	860	4,300
<b>Total</b>	<b>3,740</b>	<b>1,870</b>	<b>1,910</b>	<b>1,930</b>	<b>1,810</b>	<b>11,260</b>

Source: Documents presented to the London Conference.

Building on the results of the initial response plan, the Government of Lebanon and international partners have developed a four-year emergency response strategy – the LCRP 2017-2020. The plan intends to make a shift in the nature of the response, targeting development and stabilization while recognizing the remaining acute humanitarian needs. Aligning with the commitments expressed at the 2016 London Conference, the international community has increasingly linked support for humanitarian needs with efforts to reinforce national institutional capacities and infrastructure that will serve to strengthen Lebanon's medium to long-term prospects.<sup>71</sup>

In order to further augment targeted support and investment by international partners to promote long-term economic recovery and development, the Government of Lebanon is developing a long term Capital Investment Program for Stabilization and Development in Lebanon (CIPSDL). The aim of this program is to identify critical priorities for large-scale infrastructure development/improvement in the range of US \$14 to \$16 billion, which serves both as a scheme to mitigate the strain inflicted by the Syrian crisis, and as a platform for positioning Lebanon towards sustained economic growth. The CIPSDL will be implemented over eight years, in two phases, and covers sectors such as transport, water, waste, solid waste, telecom, electricity, and preservation of historical sites. 60% of the projects under the CIPSDL are on the national level, and the remaining is at the governorate level. The program is currently being reviewed by the World Bank to validate the projects and their readiness. Furthermore, authorities have also asked the IMF to run a macro-fiscal framework simulation to assess the impact of the CIPSDL on the different economic indicators. The government anticipates that the program would be financed through various funding streams, ranging between private sector investment, loans, grants, and concessional financing according to the following envisaging: private sector funding (25-30%), World Bank Global Concessional Financing Facility (25%), the European Neighborhood Investment Facility (25%), and the rest

through Arab funds and bilateral funding.<sup>j</sup> The government further intends to establish a medium-term investment program based on the CIPSDL, that takes into account priorities, implementation capacity, the macro-fiscal framework and public debt situation, and the potential for private sector investment in infrastructure through public-private partnership and other mechanisms.<sup>72</sup>

## B. The International Support

Donor conferences over the past three years have resulted in sizable pledges for the Syrian Regional Response Plan (RRP). But these have nonetheless generally fallen short of the funding amounts needed. In effect, the London Conference, held in February 2016, reflected an ongoing effort on the part of the donor community to address the economic and humanitarian consequences of the Syrian conflict. In this conference, over US \$12 billion were raised in pledges – US \$6 billion for 2016 and a further US \$6.1 billion for 2017-2020. Lebanon received US \$1.3 billion for 2016, with an additional US \$362 million either committed, contracted, or disbursed for the 2017–2020 period.<sup>73</sup>

The Global Concessional Financing Facility (GCFF) was established in partnership by the World Bank Group, the UN and the Islamic Development Bank Group, and was launched on April 15, 2016, during the IMF-WBG Spring Meetings with US \$140 million in initial pledges. Its objective is to provide concessional financing to assist Lebanon and Jordan in addressing the influx of Syrian refugees through reducing to concessional levels the interest rates of donor grants on development projects that benefit both Syrian refugees and their host communities.<sup>74</sup> With an initial objective of raising US \$1 billion in contributions over the next five years for Jordan and Lebanon, the total amount raised is still extremely limited. Furthermore, the World Bank has worked to expand the GCFF to the global level in the form of the Global CFF, which aims at providing concessional financing to eligible middle income countries to support refugees and host communities impacted by refugee crises across the Globe.<sup>75</sup>

On 5 April 2017, the Supporting the Future of Syria and the Region Brussels conference brought together representatives of over 70 countries, international organizations, and civil society to confirm commitments made in the London Conference and raise new funding to meet immediate and longer-term needs of people whose lives are being distressed by the conflict. In the wake of the Brussels conference, at the end of May 2017, committed resources to Lebanon amounted to US \$1.41 billion, which includes US \$1.10 billion in donor assistance and US \$309.6 million carried over from 2016 by partners and pooled funds. For 2018 and beyond, donors have so far committed US \$350 million in support of Lebanon. A total of US

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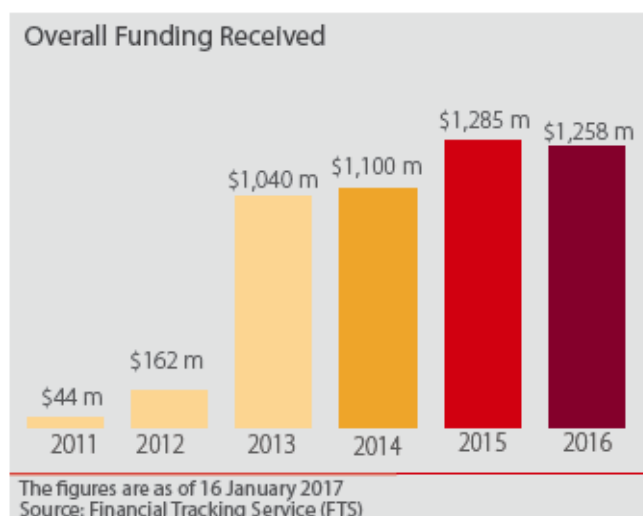
<sup>j</sup> The data mentioned pertaining to the CIPSDL are still work in progress by the Presidency of the Council of Ministers and has not been finalized yet.

\$236.3 million has been provided in the first quarter of 2017 to UN agencies and NGOs in support of activities under the Lebanon Crisis Response Plan (LCRP, highlighted in the following section), which is less than half of the assistance reported last year during the same period.<sup>76</sup>

In total, donor funding since 2013 averaged around 50% of the appealed requirements by the Lebanese government. Funding was received beginning in 2011, passing through the Fifth Regional Response Plan (RRP5), the Sixth Regional Response Plan (RRP6), and LCRP 2015, and ending with LCRP 2016, amounting around US \$4.9 billion.<sup>77</sup> (Graphs 8 & 9)

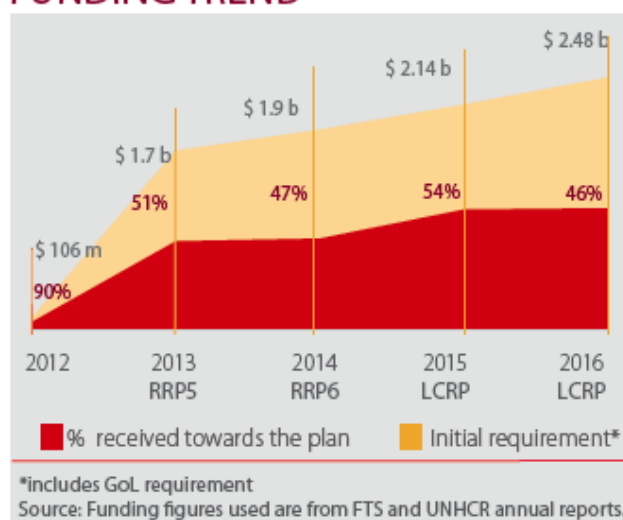
Graph 8

## DONOR CONTRIBUTION



Graph 9

## FUNDING TREND



Currently, 2017 funding appeal is set at US \$2.75 billion, of which US \$515 million was reported to be received as of end of June 2017, which indicates a shortage of around 60% if measured on a semiannual basis.<sup>78</sup>































### C. The Lebanon Crisis Response Plan 2017 – 2020 (LCRP)

The Lebanon Crisis Response Plan (LCRP) 2017-20 was launched in February 2017 as part of the RRP. With a US\$2.75 billion appeal as required funding, the LCRP gathers more than 104 partners to assist 2.8 million highly vulnerable people living in Lebanon. It aims to provide protection and immediate assistance to 1.5 million displaced Syrians, 1.03 million vulnerable Lebanese, 257,000 Palestinian refugees in Lebanon, and 31,502 displaced Palestinians from Syria, and deliver basic services to 2.26 million people, as well as to invest in Lebanese infrastructure, economy, and public institutions in order to reinforce Lebanon's economic, social, and environmental stability.<sup>79</sup>

The sectors targeted by appealed partners include protection, social stability, livelihoods, health, basic assistance, water, education, food security, shelter, and energy.<sup>80</sup> (Table 4)



Table 4 - The Lebanon Crisis Response Plan 2017 – 2020  
2017 TARGET & REQUIREMENT BY SECTOR

PEOPLE TARGETED		SECTORS	REQUIREMENTS (US\$)
2,236,299		 SOCIAL STABILITY	 123.8m
1,959,428		 WATER	 280m
1,887,502		 PROTECTION	 163.8m
1,535,297		 HEALTH	 308m
1,276,000		 BASIC ASSISTANCE	 571.5m
1,119,171		 ENERGY	 99.2m
961,388		 FOOD SECURITY	 507.2m
543,616		 EDUCATION	 372.6m
536,002		 SHELTER	 128.7m
65,557		 LIVELIHOODS	 195.7m

## V. Challenges and Opportunities

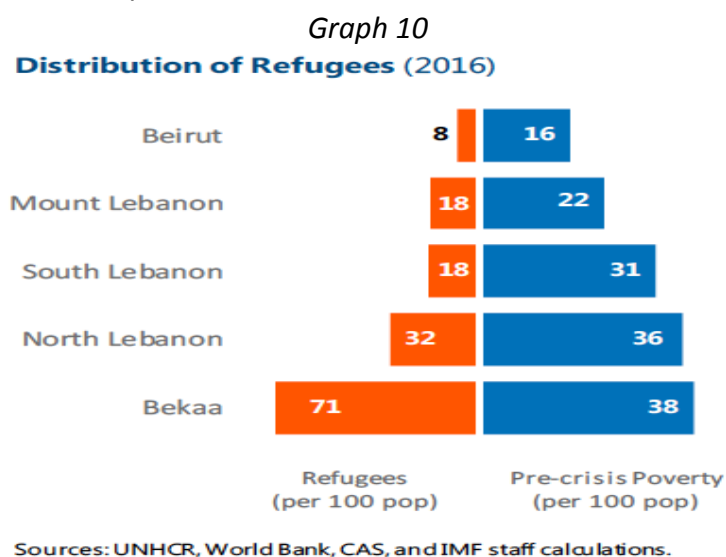
### A. Challenges

Although a paper by IMF staff indicates that theory suggests that the impact of displacement inflows is (ultimately) benign and will lead to returns to capital and high skilled labor, the nature of Lebanon's economy presents additional challenges:

1. Lebanon's investment climate has serious shortcomings. Finance is generally accessible, but poor infrastructure, red tape, and political uncertainty have long hindered Lebanese firms from investing in new projects. In addition, surging regional tensions, specifically the war in neighboring Syria, have undermined local confidence and weakened the growth outlook, reducing investment incentives even further.
2. The nature of Lebanon's labor market worsens the impact of displaced Syrians. Though data is limited, estimates show that the Lebanese market is less accommodating. Almost half of the Lebanese workforce is employed in the informal sector and so is likely to

compete directly with new displaced people. Furthermore, many of these workers are not covered by Lebanon's social safety net, making them particularly vulnerable.

3. Current studies of the positive economic impact of the displaced population may not be applicable to Lebanon, given the massive scale of displaced Syrian inflows. Such a scale has generated a shock that has outstripped the Lebanese economy's ability to respond smoothly, or even to mitigate some of its short-term costs. This is particularly true due to the fact that the displacement shock has not been spread equally across Lebanese territory, but has been concentrated in those regions of Lebanon where poverty and social vulnerability are already overwhelming, and where competition for unskilled jobs may be most acute (Graph 10).



4. The long-term positive role of increased capital stock mentioned earlier, which compensates for the exhaustion of unpriced factors such as public goods and infrastructure, cannot be taken for granted in light of Lebanon's difficult political situation and its limited fiscal space.<sup>81</sup>
5. A current challenge is to reverse the recent trends in growth and poverty and employment among Lebanese and reduce unemployment among Syrians benefiting from grants and concessional financing provided by the international community to avoid a further increase in the market debt and fiscal deficit and reduce the interest burden. This fiscal and debt situation represents the main factor obstructing a significant increase in the level of public investment in the short term, namely the financing of the local component of the projects supported by multilateral and regional lenders (i.e. the counterpart funds), which the government requests to be financed through concessional loans and grants, or flexible investment loans, amounting to US \$900 million during 2017-2019.<sup>82</sup>

## B. Opportunities and Solutions

In light of these uncertainties, Lebanon's ability to accommodate a large displacement inflow by increasing production is relatively limited compared to many other countries and requires foreign support. This support constitutes a vital element for facing the current challenges and for providing effective and efficient mechanisms that contribute to favoring potentials, solutions, and even opportunities. It is also crucial to address the governance loopholes that undermine the policy-making and institutional frameworks in order to enhance the efficiency of any prospects. Briefly, such opportunities and solutions can be stated as follows:

1. Funding for infrastructure, particularly electricity, water, and telecom sectors, would not only provide immediate job opportunities for both Lebanese and Syrians, but it would also lay the foundation for a comprehensive improvement in productivity, growth, employment, and development, reducing the cost to the economy caused by weak infrastructure.<sup>83</sup> In this context, the role of the experienced Lebanese private sector should be increased, backed up by guarantees and insurance instruments,<sup>84</sup> in addition to capitalizing on the experience and capacity of Syrian labor in infrastructure if conveniently enhanced and channeled for improving infrastructure in Lebanon. Based on World Bank estimates of employment creation by the infrastructure sector in Lebanon, each US \$1 billion of public investment generates around 50,000 direct and indirect jobs. In addition, the roads sector creates around 100,000 direct and indirect jobs per US \$1 billion of investments.<sup>85</sup> Infrastructure investment plans should be grounded in a medium-term fiscal consolidation strategy to avoid worsening the debt sustainability.
2. By the same token, stabilization support for host communities would enhance internal demand and help Lebanon mitigate some of the short-term costs of the presence of displaced population, by matching the authorities' capacity to offer government services with increased demand.<sup>86</sup>
3. Funding for active labor market policies and more comprehensive social safety nets would help ensure the widest possible employment benefit from economic expansion.<sup>87</sup>
4. Funding for initiating foreign direct as well as local and public investments in projects that enhance the productivity and industrialization of the real sector so as to generate employment through capitalizing on Lebanon's comparative advantages in knowledge, health, and academics.
5. Funding for establishing economic and business platforms, such as border zones employing Syrian labor under Lebanese management,<sup>88</sup> which serve as a hub that encloses export industries and embraces logistics and construction services for entering the reconstruction phase in post-war Syria, particularly in Eastern and northern Lebanon. Furthermore, efforts should focus on expanding educational opportunities for the displaced and Lebanese populations, with an increase in non-formal and technical education and vocational training opportunities, which serve to reduce the number of

new entrants into the labor force and improve the employability of Lebanese and Syrian youth.<sup>89</sup> In this regard, displaced labor can be trained to acquire the necessary skills that enable them to participate effectively in the reconstruction phase of Syria, and thus would also serve to encourage their return by emphasizing their economic and social interests. According to the Reaching All Children with Education (RACE) program, donor support of US \$350 million per annum is needed during 2017-2020 for primary and vocational education of Lebanese and non-Lebanese youth.<sup>90</sup> In addition, displacement relief initiatives should prioritize the consumption of Lebanese products and services in order to stimulate Lebanese productive industries.

6. Repatriating the displaced to safe areas in their home country. According to the propositions of most Lebanese officials, the long-term solution is for the displaced to return to safe areas in Syria, to refuse integration, insist on the return of displaced persons home or to other safe areas in asylum-granting countries, and to deny naturalization which is prohibited by the Lebanese Constitution,<sup>91</sup> knowing that UNHCR surveys indicate that 90% of the displaced hope to return to Syria.<sup>92</sup> In this context, forming statistical data bases about the displaced population constitutes a crucial step to facilitating repatriation.
7. Distributing displaced persons across neighboring countries<sup>93</sup> and Europe. The solution to resettle displaced Syrians in third countries was proposed by European officials, including French President François Hollande.
8. Rallying the international community around lessening the socioeconomic burdens inflicted upon Lebanon through launching exceptional and comprehensive funding schemes. In this context, the World Bank established a Multi-Donor Trust Fund to support Lebanon in 2014, similar to the one that was already underway in Jordan. This Fund was created to support Lebanon in addressing the implications of the Syrian conflict in addition to supporting Lebanese communities hosting displaced Syrians. It is a multilateral trust fund created by the International Support Committee for Lebanon and managed by the World Bank, with contributions from several donor countries. During the preparations for the conference of donor countries, the World Bank proposed to give Lebanon US \$2.5 billion in assistance from donor countries per year, as preferential loans and grants enclosed in a portfolio of projects and programs that cover several sectors, including education, social protection, urban development, transport, water, environment, finance and private sector, energy, social services, telecommunications, and fiscal management reform.<sup>94</sup> In this respect, recently in February 2017, World Bank Group allotted US \$200 million for road repairs in Lebanon, of which US \$155 million are non-grant and repayable over 32.5 years, as part of a five-year, US \$510 million government plan.<sup>95</sup> A further US \$100 million is expected from the Japan International Cooperation Agency (JICA). The plan is estimated to generate 3.75 million person days in

direct employment during the five years of its implementation. It is worth noting that financing of about US \$500 million is required in 2017 for the acquisition of land for infrastructure projects in order to start-up all projects for which loans have already been ratified, in addition to US \$600 million for financing other local cost components.<sup>96</sup> Another recent initiative comprised of a US \$150 million package to boost Lebanon's healthcare services, of which US \$95.8 million is a loan, and US \$30 million were earmarked by the Islamic Development Bank.<sup>97</sup> This recent project raises the Bank's envelope for Lebanon to US \$1.6 billion, including grants and soft loans.<sup>98</sup> In order to address some expressed concerns related to these funding programs, few issues could be considered:

- The fund should be grant-based and not loan-based;
- The fund should equally target Lebanese host communities as well, specifically the most underserved, affected, and vulnerable among them;
- The fund should be more of a development fund than a fund merely aimed at "economic stabilization";
- Priority is to be given to investing, as much as possible, in projects characterized by relatively heavy employment of low- and medium-skill labor;
- The Lebanese state should engage in serious review, upgrading, and implementation of its existing economic visions and strategies for medium- and long-term social development; and
- The good management of the use and investment of funds would address two interrelated issues: the soaring problems of poverty, and the social integration crisis.<sup>99</sup>

9. Creating industrial investment zones and local economic development plans and associations<sup>100</sup> with international funding—including funds allocated by the UN to support sectors in countries hosting displaced Syrians, and in collaboration with local municipalities which play a key role by providing land at low or nominal rents, especially that they do not require the passing of laws by Parliament. Preparations are underway to implement three pilot industrial zones in collaboration with UNIDO in Baalbek, the town of Joon in the Chouf, and the town of Terbol in the Beqaa, across an approximate area of two million square meters. In addition, the special economic area project intended to be established as a free zone in northern Lebanon, the Tripoli port expansion project, and the suggestion to develop Qlei'at airport near the Syrian borders are all worthy projects for execution and consideration. Implementing such industrial projects that are consistent with their agricultural environment will create 20,000 jobs, according to a study by the Association of Lebanese Industrialists.<sup>101</sup>

10. Initiating agricultural development as an additional channel to absorb labor. The agricultural sector can become a growth sector for the Lebanese economy through implementing technology in post-harvesting, crop preservation, reduction of waste,

marketing, and distribution to markets. Diplomatic lobbying also plays a role in securing improved access to Arab and EU markets.<sup>102</sup>

11. Local procurement should be adopted by the UN and the international community to boost the local economy.<sup>103</sup>
12. Engaging national and local authorities to deal with and address the impact of the Syrian conflict. Accordingly, the international community needs to consider more positive messaging on the presence of the displaced population with a tendency to influence decision makers. Hence, lobbying needs to be undertaken for launching a national employment strategy that encloses action plans for job creation and employment focus.<sup>104</sup>
13. Providing economic aid for socioeconomic priorities. Initiatives need to be developed to provide significant large-scale economic assistance from Arab-Gulf states to preempt potential social tensions through job creation, thus serving as a mechanism to involve the private sector in infrastructure development and job creation.<sup>105</sup>
14. Acquiring soft loans from the World Bank. Interest-free soft loans were proposed in two main initiatives, the first entitled the Soft Funding Facilities Program, and the second entitled the Guaranteed Facilities Program, during the Financial and Economic Challenges in the Middle East conference held in Washington, D.C. on April 15, 2016, and organized by the World Bank Group with the UN and the Islamic Development Bank. Some Lebanese officials object to the principle of loans and call for donations instead.<sup>106</sup>
15. Creating a dedicated relief authority whose mission is to find solutions to the displacement crisis and source permanent funding.<sup>107</sup>
16. Capitalizing on strengths of both the Lebanese and Syrian economies, e.g. promoting agricultural crops of Syria through collaborating with Lebanese businesses for generating Agro-industrial products.<sup>108</sup>
17. Funding for supporting, encouraging, and empowering social stability initiatives launched by Lebanese entrepreneurial youth aiming to solve critical humanitarian issues, such as the Humanitarian Innovation Lab initiative that comprises a joint effort between UNHCR and UNICEF.<sup>109</sup> It is worth mentioning that the number of Lebanese youth engaged in social stability initiatives surpassed the target set by LCRP for the second quarter of 2017.<sup>110</sup>

Even though the potential impact on repatriation incentives is unclear, international experience suggests that self-reliant refugees, who have been able to enhance their skills while in exile, are often able to return to their country of origin more rapidly.<sup>111</sup> Moreover, it is worth noting that the proposed solutions require political decisions to convert them from

mere ideas to practical application in an attempt to diminish the effects of the crisis and restore political and economic stability in Lebanon and the region.

## **VI. Conclusion**

The six years following the eruption of the Syrian crisis have borne witness to trade, security, infrastructure, and population strains and have proven to have devastating consequences on the Lebanese macroeconomic and socioeconomic scenes, despite the relatively positive position of the financial and monetary sectors. The income generating aspects originating from the huge influx of the displaced population from Syria cannot compensate for the socioeconomic hardships caused by the crisis, given the enormous intrinsic challenges of the Lebanese economy and the shortage of international aid. The proposed opportunities and solutions cannot reverse the trends in unemployment, poverty, and social discontent among Lebanese and Syrian youth without proper funding, support, and investments from the international community and organizations in the fields of infrastructure, labor market, safety nets, economic-industrial-business platforms and zones, and social stability initiatives. It is also crucial that fiscal policy adopts an integrative approach to complement the initiatives of monetary policy through implementing large-scale projects and deploying public-private partnership schemes.<sup>112</sup>

I would like to conclude with an expressive passage from the 2017 IMF Country Report concerning Lebanon. It says: "In an uncertain world, with fragile and failed states, people are sometimes forced to leave their countries of origin, whether temporarily or permanently. And in these circumstances, it is in the general interest of the international community that they have somewhere safe to go without fueling or spreading the instability they are fleeing from. The widespread availability of refugee protection, then, is a "global public good" that benefits all states, regardless of their individual circumstances. As with all public goods, however, adequate provision must overcome an immediate coordination problem—given the incentives for each country to shift the burden onto others. Typically, the costs of maintaining the refugee regime are borne, by necessity, by those countries adjacent to the conflict in question. But this is widely acknowledged as an unfair and fragile outcome; not least because these economies often have limited resources, and so are perhaps the least well-suited to bear this burden."<sup>113</sup>

Lebanon's case with the tragic Syrian crisis is, therefore, a "cause"... a cause for achieving fairness and righteousness towards a country that is enduring, with utmost integrity, multiples of its capacity, offering "global good".

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